

Message Text

LIMITED OFFICIAL USE

PAGE 01 RANGOO 00855 030843Z

64

ACTION EA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-03 H-02 INR-07 L-02

NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06

AID-05 COME-00 EB-07 FRB-03 TRSE-00 XMB-02 OPIC-03

CIEP-01 LAB-04 SIL-01 OMB-01 /082 W

----- 081417

R 030715Z APR 75

FM AMEMBASSY RANGOON

TO SECSTATE WASHDC 9385

LIMITED OFFICIAL USE RANGOON 0855

E.O. 11652: N/A

TAGS: EFIN BM

SUBJ: GUB RAISES INTEREST RATES ON SAVINGS DEPOSITS;

"COMMERCIALIZES" CORPORATIONS

1. SUMMARY: EFFECTIVE APRIL 1 GUB RAISED INTEREST RATES ON SAVINGS DEPOSITS AS NECESSARY MOVE TO GENERATE LARGER PUBLIC SAVINGS NEEDED FOR DEVELOPMENT EFFORTS. AT SAME TIME, NEW SYSTEM OF "COMMERCIALIZATION" OF GOVERNMENT ENTERPRISES WAS ADOPTED. BOTH MOVES RESULTED IN PART FROM PRODDING BY IMF. ACTIONS ILLUSTRATE THAT GUB IS SOMETIMES RESPONSIVE TO PRAGMATIC ECONOMIC REFORMS SUGGESTED BY INTERNATIONAL FINANCIAL INSTITUTIONS AND THESE INSTITUTIONS ARE PERHAPS BEST VEHICLE FOR INTRODUCING SUCH REFORMS IN BURMA. END SUMMARY.

2. GUB MINISTRY OF PLANNING AND FINANCE ANNOUNCED THAT EFFECTIVE APRIL 1 SAVINGS DEPOSIT RATE HAS BEEN RAISED FROM 3.5 PERCENT TO 6 PERCENT. INTEREST SCHEDULE FOR 12-YEAR SAVINGS CERTIFICATES ALSO REVISED ACCORDINGLY. MAXIMUM PERMISSIBLE AMOUNT ALLOWED INDIVIDUAL SAVERS INCREASED FROM K200,000 (\$32,258) TO K500,000 (\$80,645). PRIVATE CITIZENS CAN MAKE DEPOSITS TO THEIR ACCOUNTS WITHOUT RESTRICTION BUT ARE LIMITED TO ONE WITHDRAWAL PER WEEK.

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 RANGOO 00855 030843Z

3. BURMA'S PRIVATE SAVINGS DEPOSITS HAVE REMAINED LOW IN COMPARISON

TO THE COUNTRY'S FINANCING REQUIREMENTS LARGELY BECAUSE THE LOW INTEREST RATE STRUCTURE DISCOURAGED SUCH SAVINGS. RECENT RAPID INFLATION FURTHER TENDED TO DISCOURAGE BANK DEPOSITS BEARING SUCH LOW INTEREST RATES, AND AS A RESULT, QUASI-MONEY HAS GROWN VERY SLOWLY IN RECENT YEARS WHEN COMPARED WITH INCREASES IN THE MONEY SUPPLY.

4. IMF HAS BEEN PRODDING GUB TO GENERATE MORE PRIVATE SAVINGS BY MAKING BANK DEPOSITS MORE ATTRACTIVE TO PUBLIC, AND INCREASE IN INTEREST RATES WAS ONE OF SEVERAL REFORMS GUB PLEDGED TO MAKE IN CONNECTION WITH STAND-BY AGREEMENT REACHED LAST NOVEMBER WITH IMF. THIS ACTION SEEMS TO ILLUSTRATE THAT GUB CAN BE RESPONSIVE TO ADVICE AND PRESSURE FROM INTERNATIONAL FINANCIAL INSTITUTIONS FOR ECONOMIC REFORMS. SUGGESTIONS FROM THESE INSTITUTIONS CAN ALSO STRENGTHEN HAND OF THOSE WITHIN GUB PRESSING FOR MORE PRAGMATIC ECONOMIC POLICIES. FOR EXAMPLE, CHAIRMAN OF UNION BANK HAS NOTED CONCEPTUAL BREAKTHROUGH IN CONVINCING GUB PRESIDENT THAT INTEREST PAYMENTS NOT NECESSARILY PART OF DECENTRAL CAPITALIST SYSTEM BUT ARE ALSO NECESSARY TO GENERATE SAVINGS IN SOCIALIST ECONOMY.

5. IN A RELATED MOVE TOWARD ECONOMIC RATIONALIZATION, A NEW POLICY OF "COMMERCIALIZING" OPERATIONS OF STATE BOARDS AND CORPORATIONS WENT INTO EFFECT APRIL 1, WITH BEGINNING OF NEW FISCAL YEAR. THIS POLICY ALSO HAS BEEN ENCOURAGED BY IFI. MOST IMPORTANT ASPECT OF NEW SYSTEM IS THAT STATE ENTERPRISES FACING A CASH SHORTAGE AS RESULT OF LOWER INCOME OR HIGHER EXPENDITURES THAN BUDGETED WILL NO LONGER BE ABLE TO HAVE DEFICIT UNDERWRITTEN AS PART OF GOVERNMENT BUDGET, BUT WILL BE FORCED TO BORROW FROM CENTRAL BANK AT INCREASINGLY PENAL RATES OF INTEREST, AND, AT LEAST IN THEORY, SUBJECT TO MANAGEMENT OR OTHER REFORMS WHICH BANK MAY INSIST ON AS A CONDITION OF ITS LOAN. AS A COROLLARY, STATE ENTERPRISES ARE ALSO BEING REQUIRED TO INSIST ON PROMPT PAYMENT FOR GOODS OR SERVICES WHICH THEY PROVIDE TO OTHER GOVERNMENT DEPARTMENTS OR ENTERPRISES, SO THAT GUB ENTITIES WILL NO LONGER BE ABLE TO OPERATE AT A LOSS BY SIMPLY FAILING TO PAY THEIR BILLS TO OTHER ENTITIES.

6. CLEARLY THERE WILL BE EXCEPTIONS AND LIMITATIONS ON THIS SCHEME, ESPECIALLY IN FIRST YEAR OR TWO, BUT IT STILL REPRESENTS AN IMPORTANT STEP TOWARD IMPROVED MANAGEMENT OF GOVERNMENT ENTER- LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 RANGOO 00855 030843Z

PRISES. STILL ANOTHER FORWARD STEP IS THE GROWING ACCEPTANCE BY SENIOR GOVERNMENT AND PARTY OFFICIALS OF THE STILL HESITANT TREND TOWARD PRODUCTIVITY-RELATED INCENTIVES FOR WORKERS IN GOVERNMENT ENTERPRISES. THE HEAD OF ONE OF THE GUB'S FEW RELATIVELY SUCCESSFUL ECONOMIC VENTURES, WHICH IS MAKING EXTENSIVE USE OF AN INCENTIVE SYSTEM, RECENTLY DESCRIBED TO EMBOFFS THE COMPLICATED POLITICKING IN WHICH HE HAD TO ENGAGE TO GET APPROVAL FOR HIS INCENTIVE SCHEME, NOT FROM GUB OR BSPP BUT FROM NE WIN PERSONALLY.

THIS OFFICIAL ADDED THAT THE COMMERCIALIZATION PLAN HAD GAINED
ACCEPTANCE MAINLY BECAUSE NE WIN DID NOT REALLY UNDERSTAND THE
FAR-REACHING EFFECTS WHICH IT WOULD HAVE IF FULLY IMPLEMENTED.
OSBORN

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptoning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: BANKS, BANK DEPOSITS, INTEREST RATES
Control Number: n/a
Copy: SINGLE
Draft Date: 03 APR 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: CunninFX
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975RANGOO00855
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750115-0951
From: RANGOON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750485/aaaaczpj.tel
Line Count: 119
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: CunninFX
Review Comment: n/a
Review Content Flags:
Review Date: 07 JUL 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <07 JUL 2003 by KelleyW0>; APPROVED <13 NOV 2003 by CunninFX>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: GUB RAISES INTEREST RATES ON SAVINGS DEPOSITS; "COMMERCIALIZES" CORPORATIONS
TAGS: EFIN, BM
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006